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ECONOMICS

The CIA's goof in assessing the

The agency seriously miscalculated how defense fits into Russia's economy

Through three decades of the cold war, U.S. policy planners have repeatedly faced crises in which it was vitally important to gauge both the size of the Soviet defense effort and the nature of its military capabilities. Their security blanket at such times was the reputation of a group of Central Intelligence Agency analysts—including hundreds of economists—who were presumed to have an unmatched degree of expertise on how defense fits into the Soviet economy.

Each of the armed services always had—and still has—its own intelligence establishment. But the CIA's Sovietologists steadily gained ground at the expense of other intelligence agencies mainly because only the CIA had the vast store of data and sheer analytic manpower needed to integrate jigsaw bits of information into a coherent picture of the war-making capabilities of the Soviet economy.

For at least a decade, there have been critics who argued that the CIA's model of the Soviet economy was a hopelessly complex superstructure that bore little relation to reality—an example of secret research gone wild. Yet for years the sheer weight of the resources devoted to the CIA's Soviet project allowed the agency to carry the day.

But as Admiral Stansfield Turner—President Carter's second nominee for the sensitive position of CIA director—approaches his confirmation hearings, a pall has fallen over the agency's presumed Soviet expertise. The CIA's Soviet picture has now been found to be incredibly distorted, to an extent far beyond agency's admissions thus far.

The hearings. With the Carter Administration trying to move beyond existing nuclear arms treaties with the Soviet Union, toward both nuclear and conventional arms reduction, it now appears that at least four congressional committees will soon examine the intelligence communities' views on Soviet defense. Some of the most disturbing points raised will center on the CIA's economic analysis.

By the agency's own admission, it has seriously underestimated the level of Soviet defense spending. During his May, 1976, presentation to Congress, George Bush,

the time, acknowledged that the CIA's current estimate of 50 billion to 55 billion rubles for Soviet defense outlays in 1975 was "about twice" the agency's earlier estimate. But throughout the hearings, the joint subcommittee on priorities, headed by Senator William Proxmire (D-Wis.), accepted agency assurances that virtually the only error had to do with the Soviet Union's efficiency in producing military hardware, and not with the quantity or quality of that hardware.

What the CIA has not yet disclosed, however, is that the agency's earlier estimate of Soviet weapons spending was far worse than its estimate of overall Soviet defense spending (chart). The current CIA figures for Soviet military investment outlays are about 400% of their previous level. During the agency's congressional presentation in 1974—the last one prior to the agency's massive revision of the Soviet figures—William E. Colby, then CIA director, told the Proxmire subcommittee that "expenditures devoted to [military] investment [procurement of hardware and construction of facilities] have dropped from about 40% of total defense expenditures in 1960 to about 20% in 1972." But the CIA's current revision says: "Since 1970, investment outlays have taken about 40%" of total Soviet defense spending. Thus, the agency has not only doubled its total estimate of Soviet outlays during the 1970s, it has doubled procurement's share of that total.

The agency's explanations so far are not adequate to account for the fourfold increase in the estimated cost of Soviet weaponry. This creates a strong presumption that the error was not limited to the CIA's underestimate of ruble prices in the Soviet defense sector. Quite possibly, more fundamental errors are involved, such as underestimating the quantity or performance capabilities, or both, of Soviet weapons systems.

The Soviet pattern. The current CIA data also suggest a pattern of Soviet behavior that is strongly at odds with earlier views. Until the recent revision of Soviet defense spending, CIA figures showed a marked decline in the share of Soviet gross national product devoted to military purposes—to about 6% in the mid-1970s from about 12% in the mid-1950s. The CIA now says this military "burden" has been flat or declining within the 11%-to-13% range between 1970 and 1975, although the agency has not had time to produce consistent figures for previous years.

reasons for the CIA's abrupt about-face in its assessment of the Soviet defense effort, but BUSINESS WEEK's investigation suggests that two distinct adjustments were involved.

In late 1974 or early 1975 the CIA's adamancy began to erode under the weight of mounting evidence advanced aggressively by outside critics and top officials of competing intelligence agen-

New proof that Russia boosted military spending while talking détente

cies in the State Dept. and the Pentagon. This evidence included cost data obtained covertly for specific defense items, including shipbuilding, that were at variance with the CIA's figures; unexpected sophistication of Soviet weaponry captured by the Israelis during the 1973 Mideast war; and statements made to undisclosed official Soviet bodies by Communist Party Secretary General Leonid I. Brezhnev and by Premier Alexei Kosygin.

At this point, a joint CIA-Defense Intelligence Agency (DIA) task force was convened to review all available information, including some culled from the intelligence services of other NATO countries. The resulting consensus appears to have involved a massive upgrading of the presumed quantity or quality of Soviet weaponry, since the procurement share of total estimated military outlays was doubled back to the 40% level of 1960. At the same time, figures for other outlays were trimmed, so the total defense figure remained at about 6% of GNP, with the agency conceding that if a variety of estimation factors had all tended toward the low side, the true figure could range as high as 8%.

The breakthrough. So as matters rested in early 1975, the CIA's assessment for total Soviet defense outlays was about 27 billion rubles. But by June 18, 1975—the